Supreme Court, U.S.
FILED

961899 MAY 27 1997

OFFICE OF THE CLERK

In The

Supreme Court of the United States

October Term, 1996

INSULTHERM, INC., THERMACON, INC., AND MARK MCBRIDE,

Petitioners,

v.

TANK INSULATION INTERNATIONAL, INC.,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Fifth Circuit

PETITION FOR A WRIT OF CERTIORARI

J. BRUCE BENNETT
LEON V. KOMKOV
BASKIN, BENNETT & KOMKOV
807 Brazos Street, Suite 901
Austin, Texas 78701
Telephone: (512) 322-9250

SYDNEY LEACH
Counsel of Record
JANE NENNINGER BLAND
JOAN ALISON JUBAN
JEFFREY VINCENT BROWN
BAKER & BOTTS, L.L.P.
910 Louisiana Street
Houston, Texas 77002-4995
Telephone: (713) 229-1234

Counsel for Petitioners

May 27, 1997

COCKLE LAW BRIEF PRINTING CO., (800) 225-6964
OR CALL COLLECT (402) 342-2831

QUESTIONS PRESENTED

1. Whether the court of appeals erred by holding that under this Court's much-criticized decision in *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944), Respondent's antitrust claim based on alleged wrongful prosecution of a patent infringement case need not have been brought in an earlier related patent infringement lawsuit, despite the court of appeals' holding that the antitrust claim *was* a compulsory counterclaim under Federal Rule of Civil Procedure 13.

2. Whether the court of appeals erred by holding that it had appellate jurisdiction of Respondent's appeal, given 28 U.S.C. § 1295(a)(1)'s mandate that the United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction over appeals of cases brought under 28 U.S.C. § 1338.

PARTIES TO THE PROCEEDING AND RULE 29.6 STATEMENT

Petitioners:

1. Insultherm, Inc. has no parent corporation and no subsidiaries that are not wholly owned.
2. Thermacon, Inc. has no parent corporation and no subsidiaries that are not wholly owned.
3. Mark McBride

Respondents:

1. Tank Insulation International, Inc.

TABLE OF CONTENTS

Page

QUESTIONS PRESENTED i

PARTIES TO THE PROCEEDING AND RULE 29.6 STATEMENT ii

TABLE OF AUTHORITIES v

OPINIONS BELOW 1

JURISDICTION 1

STATUTORY PROVISIONS INVOLVED 2

STATEMENT OF THE CASE 3

A. Factual Background and Proceedings in the District Court 4

B. Proceedings in the Federal Circuit and the Fifth Circuit 6

1. Appellate Jurisdiction 7

2. The Status of the Antitrust Claim 7

C. Basis for Federal Jurisdiction in the Court of First Instance 9

REASONS FOR GRANTING THE WRIT 10

I. THE FIFTH CIRCUIT'S DECISION REGARDING THE ANTITRUST CLAIM DEEPENS A SPLIT OF AUTHORITY INVOLVING SIX COURTS OF APPEALS 10

A. *Mercoid* in the Courts of Appeals 10

B. *Mercoid* in the District Courts 12

C. *Mercoid*'s Absurd Results 14

D. Conclusion 17

TABLE OF CONTENTS – Continued

Page

II. THE FIFTH CIRCUIT'S ASSERTION OF JURISDICTION OVER THIS CASE CONFLICTS WITH DECISIONS BY THE ONLY COURT OF PROPER JURISDICTION 17

CONCLUSION 21

APPENDIX A Opinion, United States Court of Appeals for the Fifth Circuit (January 29, 1997) 1a

APPENDIX B Denial of Petition for Rehearing, United States Court of Appeals for the Fifth Circuit (February 25, 1997) 1b

APPENDIX C Memorandum Opinion and Order, United States District Court for the Southern District of Texas, Galveston Division (November 30, 1995) 1c

TABLE OF AUTHORITIES

Page

CASES

Agrashell, Inc. v. Hammons Prods. Co., 479 F.2d 269 (8th Cir.), *cert. denied*, 414 U.S. 1022 (1973)..... 10, 11, 12

American Packaging Corp. v. Golden Valley Microwave Foods, Inc., No. 94-1839, 1995 WL 262522 (E.D. Pa. May 1, 1995)..... 13

Borden Co. v. Sylk, 42 F.R.D. 429 (E.D. Pa. 1967)..... 13

Burlington Indus., Inc. v. Milliken & Co., 690 F.2d 380 (4th Cir. 1982), *cert. denied*, 461 U.S. 914 (1983)..... 10, 12

Christianson v. Colt Indus. Operating Corp., 486 U.S. 800 (1988)..... 18

Douglas v. Wisconsin Alumni Research Found., 81 F. Supp. 167 (N.D. Ill. 1948)..... 13

Grumman Sys. Support Corp. v. Data Gen. Corp., 125 F.R.D. 160 (N.D. Cal. 1988)..... 13

Hydranautics v. FilmTec Corp., 70 F.3d 533 (9th Cir. 1995)..... 10, 11, 12, 14

In re Innotron Diagnostics, 800 F.2d 1077 (Fed. Cir. 1986)..... 18, 19

Insultherm, Inc. v. Tank Insulation Int'l, Inc., 64 F.3d 671 (Fed. Cir. 1995)..... 5, 15

Insultherm, Inc. v. Tank Insulation Int'l, Inc., 95 F.3d 1166 (Fed. Cir. 1996)..... 6

Korody-Colyer Corp. v. General Motors Corp., 828 F.2d 1572 (Fed. Cir. 1987)..... 20

Lewis Mfg. Co. v. Chisholm-Ryder Co., 82 F.R.D. 745 (W.D. Pa. 1979)..... 13

TABLE OF AUTHORITIES – Continued

Page

Longwood Mfg. Corp. v. Wheelabrator Clean Water Sys., Inc., 954 F. Supp. 17 (D. Me. 1997) 12

Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992) 11

Mercoid Corp. v. Mid-Continent Inv. Co., 320 U.S. 661 (1944) ..... *passim*

Natec, Inc. v. Deter Co., 28 F.3d 28 (5th Cir. 1994) ... 18, 20

Reagan v. Commonwealth Theatres of Puerto Rico, Inc., 300 F. Supp. 676 (D.P.R. 1969) 13

Rohm and Haas Co. v. Brotech Corp., 770 F. Supp. 928 (D. Del. 1991) 13

Southern Constr. Co. v. Pickard, 371 U.S. 57 (1962) 16

Switzer Bros. v. Locklin, 207 F.2d 483 (7th Cir. 1953), *cert. denied*, 347 U.S. 912 (1954) 10, 11, 12

Technicon Instruments Corp. v. Alpkem Corp., 866 F.2d 417 (Fed. Cir. 1989) 19

USM Corp. v. SPS Techs., Inc., 102 F.R.D. 167 (N.D. Ill. 1984) 13

U.S. Philips Corp. v. Windmere Corp., 861 F.2d 695 (Fed. Cir. 1988), *cert. denied*, 490 U.S. 1068 (1989) 18, 19

United States v. Eastport S.S. Corp., 255 F.2d 795 (2d Cir. 1958) 10, 12

Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172 (1965) 11

Xeta, Inc. v. Atex, Inc., 825 F.2d 604 (1st Cir. 1987) 20

TABLE OF AUTHORITIES – Continued

Page

STATUTES

Sherman Antitrust Act, 15 U.S.C. §§ 2, 15(a) 5, 9, 11, 17, 18

28 U.S.C. § 1254 1

28 U.S.C. § 1291 7

28 U.S.C. § 1295 ..... 2, 6, 7, 18

28 U.S.C. § 1331 9

28 U.S.C. § 1337 9

28 U.S.C. § 1338 ..... 6, 7, 9, 18

Declaratory Judgments Act, 28 U.S.C. § 2201 9

Fed. R. Civ. P. 13 ..... 2, 3, 6

OTHER REFERENCES

JAMES WILLIAM MOORE, MOORE'S FEDERAL PRACTICE (1997) 14

CHARLES ALAN WRIGHT, LAW OF FEDERAL COURTS (4th ed. 1983) 13

CHARLES ALAN WRIGHT, ARTHUR R. MILLER, AND MARY KAY KANE, FEDERAL PRACTICE AND PROCEDURE § 1412 (2d ed. 1990) 13

John J. Barnhardt, III, *Counterclaiming in Patent Infringement Litigation*, 15 AIPLA Q.J. 175 (1987) 13

Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175 (1989) 13, 14

Lawrence I. Wood, *The Tangle of Mercoid Case Implications*, 13 GEO. WASH. L. REV. 61 (1944) 14

PETITION FOR A WRIT OF CERTIORARI

Insultherm, Inc., Thermacon, Inc., and Mark McBride (herein "Petitioners") respectfully pray that a Writ of Certiorari issue to review the decision of the United States Court of Appeals for the Fifth Circuit entered in this case, reversing and remanding the judgment of the United States District Court for the Southern District of Texas at Galveston.

OPINIONS BELOW

The opinion of the court of appeals is reported at 104 F.3d 83. The opinion of the court of appeals is attached as Appendix A (p. 1a), and its denial of the motion for rehearing is attached as Appendix B (p. 1b). The opinion of the district court is reported at 909 F. Supp. 465. The opinion of the district court is attached as Appendix C (p. 1c).

JURISDICTION

The court of appeals issued its opinion on January 29, 1997. (Appendix A, p. 1a.) Petitioners moved for rehearing on February 12, 1997. The court of appeals denied Petitioners' motion for rehearing on February 25, 1997. (Appendix B, p. 1b.) Petitioners invoke the jurisdiction of this Court under 28 U.S.C. § 1254.

STATUTORY PROVISIONS INVOLVED

Fed. R. Civ. P. 13(a).

(a) Compulsory Counterclaims. A pleading shall state as a counterclaim any claim which at the time of serving the pleading the pleader has against any opposing party, if it arises out of the transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction. But the pleader need not state the claim if (1) at the time the action was commenced the claim was the subject of another pending action, or (2) the opposing party brought suit upon the claim by attachment or other process by which the court did not acquire jurisdiction to render a personal judgment on that claim, and the pleader is not stating any counterclaim under this Rule 13.

28 U.S.C. § 1295(a)(1).

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction –

(1) of an appeal from a final decision of a district court of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, the District Court of the Virgin Islands, or the District Court for the Northern Mariana Islands, if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title, except that a case involving a claim arising under any Act of Congress relating to copyrights, exclusive rights in mask works, or trademarks and no other claims

under section 1338(a) shall be governed by sections 1291, 1292, and 1294 of this title. . . .

STATEMENT OF THE CASE

This case presents the Court with conflicts of authority among the courts of appeals on two important issues of federal procedure: (1) whether an antitrust claim based on wrongful prosecution of a patent infringement case constitutes a compulsory counterclaim to the same infringement action; and (2) the scope of the Federal Circuit's exclusive jurisdiction over patent-related appeals. Relying on this Court's decision in *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944), the United States Court of Appeals for the Fifth Circuit held that antitrust allegations, in which the gravamen is the counterclaim defendant's patent infringement lawsuit, constitute an exception to Fed. R. Civ. P. 13(a)'s requirement that a compulsory counterclaim be brought at the time the litigation is brought arising out of the same transaction or occurrence. (Appendix A, p. 12a.) The Fifth Circuit's decision in this regard deepens the split between those courts of appeals that view *Mercoid* as an expansive exception to Rule 13 and those that limit Justice Douglas's 5-4 opinion to its peculiar facts.

The Fifth Circuit highlighted this conflict of authority in expressing disagreement with the Second and Fourth Circuits' limitation of *Mercoid* to its facts and agreement with the Ninth Circuit's much broader interpretation of *Mercoid*. (*Id.* at 11a-12a & n.4.) In observing that "the courts that have considered *Mercoid* have not reached

uniform conclusions," (*id.* at 11a), and in pointedly acknowledging that it considered itself to be bound by the *Mercoid* decision, (*id.* at 6a), the Fifth Circuit impliedly invited this Court's review.

Similarly, the Fifth Circuit's decision to take jurisdiction over this appeal questions the exclusivity of the Federal Circuit's authority over patent-related appeals. (*Id.* at 3a-4a.) In opinions directly conflicting with the Fifth Circuit's, this exclusivity has been strictly defended by both the Federal Circuit and this Court. Because the growth of the technology industry in this nation has resulted in a tremendous increase in patent- and technology-related cases now pending in the federal courts, this Court should resolve the conflicts of authority regarding both the counterclaim question and jurisdiction over patent-related appeals – both of which, as discussed below, often are presented to federal district courts and courts of appeals.

A. Factual Background and Proceedings in the District Court

Insultherm, Inc., Thermacon, Inc., and Tank Insulation International, Inc. ("TII") specialize in the sidewall insulation of industrial petrochemical storage tanks. On September 20, 1993, Insultherm sued TII for infringement of its insulation system, covered by U.S. Patent No. 4,545,490, filed in the Galveston Division of the United States District Court for the Southern District of Texas. TII counterclaimed for a declaratory judgment that the patent was invalid, but did not raise any counterclaim for any antitrust violation. After the district court dismissed

the case, holding that the patent was unenforceable, Insultherm appealed to the Federal Circuit. The Federal Circuit held that the trial court had abused its discretion, reversed the dismissal, and remanded the case to the district court. *Insultherm, Inc. v. Tank Insulation Int'l, Inc.*, 64 F.3d 671 (unpublished table decision), No. 94-1378, 1995 WL 453400, at *5 (Fed. Cir. Apr. 25, 1995) (hereinafter *"Insultherm I"*).

During the pendency of Insultherm's first appeal to the Federal Circuit, in a separate proceeding, TII sued Insultherm, Thermacon, and Mark McBride, a principal of Insultherm, in the Victoria Division of the Southern District of Texas for violations of the Sherman Act, 15 U.S.C. § 2. According to TII's allegations, a cross license agreement between Insultherm and Thermacon constituted illegal anticompetitive behavior that had injured TII. Apparently recognizing that it should have brought the antitrust action as a counterclaim in Insultherm's infringement suit, TII also moved for leave to amend its answer in the original infringement action, so that it could add the antitrust allegation as a counterclaim.

After the Federal Circuit remanded Insultherm's infringement case, the parties agreed to transfer the newly filed antitrust action to the Galveston Division and to consolidate it with Insultherm's infringement action. The district court signed an order consolidating the cases. (Appendix C, p. 3c.) Insultherm and Thermacon then moved to dismiss TII's antitrust action on the grounds that it was a compulsory counterclaim to the infringement action, that it was barred by *res judicata*, and that TII had failed to state an antitrust cause of action. In a thorough memorandum opinion and order, the district

court vacated the consolidation, dismissed the second antitrust action as a compulsory counterclaim to the infringement suit, and denied TII's untimely motion for leave to file the antitrust claim as a counterclaim to the infringement action. (*Id.* at 21c.)

B. Proceedings in the Federal Circuit and the Fifth Circuit

TII brought two appeals from the single order of the district court. TII appealed the denial of its motion for leave to file an antitrust counterclaim in the first action to the Federal Circuit. About five months before the Fifth Circuit issued the decision for which Petitioners now seek certiorari, the Federal Circuit issued its judgment *affirming* the same opinion of the district court that the Fifth Circuit has now *reversed*. *Insultherm, Inc. v. Tank Insulation Int'l, Inc.*, 95 F.3d 1166 (Table) (Fed. Cir. 1996) (per curiam). TII concurrently appealed the district court's dismissal of its antitrust action to the Fifth Circuit, contending that its antitrust claim of wrongful prosecution of an infringement action was not a compulsory counterclaim under the *Mercoid* exception to Fed. R. Civ. P. 13. Petitioners argued not only that the district court's decision was correct, but also that the Fifth Circuit had no jurisdiction over TII's appeal. Because jurisdiction had attached to the consolidated cases under 28 U.S.C. § 1338, Petitioners argued, 28 U.S.C. § 1295(a)(1) provided exclusive jurisdiction over the appeal to the Federal Circuit.

1. Appellate Jurisdiction

The Fifth Circuit addressed the jurisdictional question first. (Appendix A, p. 3a.) Recognizing that because the Federal Circuit has exclusive jurisdiction over "an appeal from a final decision of a district court . . . if the jurisdiction of that court was based, in whole or in part, on [28 U.S.C.] § 1338," the Fifth Circuit conceded that the Federal Circuit had jurisdiction over this entire case so long as the antitrust and infringement claims were consolidated. (*Id.* (citing 28 U.S.C. § 1295(a)(1)).) Nevertheless, the Fifth Circuit held that the antitrust action "returned to its original, independent status" upon the district court's vacation of the consolidation in connection with its opinion dismissing all of TII's claims. (*Id.*) Citing no supporting authority whatever, the Fifth Circuit then concluded that its jurisdiction over the now lone-standing antitrust action was proper under 28 U.S.C. § 1291. (*Id.* at 3a-4a.)

2. The Status of the Antitrust Claim

The Fifth Circuit next considered TII's allegation that its antitrust action was not a compulsory counterclaim to the infringement suit. (*Id.* at 4a.) Reviewing *de novo* the district court's decision that the antitrust claim was barred because TII had not asserted it in its answer to the infringement suit, the court of appeals noted that TII's claim was "logically related to the infringement action pursued by Insultherm." (*Id.* at 5a.) "Given this clear connection," the Fifth Circuit observed, it was apparent that TII had raised as defenses to the infringement action

"much of the same conduct . . . that it now asserts as the basis of its antitrust claim." (*Id.*) Because the two claims thus relied largely on the same evidence and raised common issues of law and fact, (*id.* at 5a), the Fifth Circuit concluded that TII's counterclaim clearly had "every indicia of a counterclaim under rule 13(a)." (*Id.* at 9a.) As such, the court held, the antitrust action was barred under Rule 13(a), absent some exception to its requirements. The Fifth Circuit, however, found that such an exception existed as a result of this Court's decision in *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944). (*Id.* at 10a.)

In *Mercoid*, Mid-Continent Investment Company sued Mercoid for patent infringement. 320 U.S. at 662. Mercoid filed an antitrust counterclaim in which it alleged that Mid-Continent misused the monopoly power granted by the patent by attempting to expand the scope of its patent to unpatented parts and other markets. *Id.* Mid-Continent responded that Mercoid's counterclaim was barred by *res judicata* because Mercoid did not raise it in an earlier infringement suit brought by Mid-Continent against a third party for which Mercoid had provided the defense. *Id.* at 669. The Supreme Court found that argument unpersuasive, observing that:

> Though Mercoid were barred in the present case from asserting any defense which might have been interposed in the earlier litigation, it would not follow that its counterclaim for damages would likewise be barred. That claim for damages is more than a defense; it is a separate statutory cause of action. The fact that it might have been asserted as a counterclaim in the prior suit by reason of Rule 13(b) of the Rules of

> Civil Procedure . . . does not mean that the failure to do so renders the prior judgment res judicata as respects it.

Id. at 671.

Although conceding that this Court's opinion in *Mercoid* on this issue provided "very little analysis" and "appears to be in conflict with rule 13(a)," (Appendix A, p. 6a), the Fifth Circuit held in this case that *Mercoid* created "a limited exception to rule 13(a) for antitrust claims in which the gravamen is the patent infringement lawsuit initiated by the counterclaim defendant." (*Id.* at 12a.) Because the Fifth Circuit was convinced that TII's antitrust counterclaim fit the exception, it reversed the judgment below and remanded the case to the district court. (*Id.* at 13a.)

C. Basis for Federal Jurisdiction in the Court of First Instance

The district court had jurisdiction over Insultherm's patent infringement claims under 28 U.S.C. § 1338. Jurisdiction over TII's declaratory judgment counterclaim was proper under the Declaratory Judgments Act, 28 U.S.C. § 2201. TII's antitrust claim, which was later consolidated with Insultherm's action, originally came before the district court based upon the Sherman Act, 15 U.S.C. § 15(a), and federal question jurisdiction, 28 U.S.C. §§ 1331 and 1337.

REASONS FOR GRANTING THE WRIT

I

THE FIFTH CIRCUIT'S DECISION REGARDING THE ANTITRUST CLAIM DEEPENS A SPLIT OF AUTHORITY INVOLVING SIX COURTS OF APPEALS

A. *Mercoid* in the Courts of Appeals

Including the Fifth Circuit's opinion in this case, six courts of appeals have now opined on the precedential value of *Mercoid's* discussion of antitrust counterclaims in patent infringement cases. Of the five courts that preceded the Fifth Circuit, three followed *Mercoid*. *Hydranautics v. FilmTec Corp.*, 70 F.3d 533, 536 (9th Cir. 1995); *Agrashell, Inc. v. Hammons Prods. Co.*, 479 F.2d 269, 287 (8th Cir.), *cert. denied*, 414 U.S. 1022 (1973); *Switzer Bros. v. Locklin*, 207 F.2d 483, 488 (7th Cir. 1953), *cert. denied*, 347 U.S. 912 (1954). The other two declined to follow *Mercoid* by limiting the opinion to its facts. *Burlington Indus., Inc. v. Milliken & Co.*, 690 F.2d 380, 389 (4th Cir. 1982), *cert. denied*, 461 U.S. 914 (1983); *United States v. Eastport S.S. Corp.*, 255 F.2d 795, 805 (2d Cir. 1958).

Agrashell and *Switzer* both involved patent misuse allegations asserted as antitrust counterclaims to patent infringement actions, the same type of antitrust claim asserted in *Mercoid*.[1] *See Agrashell*, 479 F.2d at 284-85;

---

[1] TII's claims against Insultherm are for "sham" or "predatory" patent litigation and for fraudulent procurement of a patent, which it alleges are violations of the Sherman Act. Unlike those in *Mercoid*, *Agrashell*, and *Switzer*, TII's claims are *not* based on a theory of patent misuse. A patent holder misuses its patent when it attempts to expand the scope of its patent and thus monopolize the market for unpatented components.

Switzer, 207 F.2d at 487-88. Both courts expressly followed *Mercoid* with little discussion. *See Agrashell*, 479 F.2d at 287; *Switzer*, 207 F.2d at 488. The Ninth Circuit's decision in *Hydranautics v. FilmTec Corp.*, 70 F.3d 533 (9th Cir. 1995), however, adopted an even broader interpretation of *Mercoid* than that of *Agrashell* and *Switzer*. The *Hydranautics* court made no attempt to compare the facts before it to those in *Mercoid*, other than to note that both cases concerned "antitrust counterclaims" to patent infringement cases. *Hydranautics*, 70 F.3d at 536. As opposed to limiting *Mercoid* to its specific facts (or even to misuse claims in general), the Ninth Circuit instead held that *Mercoid* generally "leaves open the possibility of raising antitrust claims as permissive counterclaims in an infringement action, or in a separate and subsequent action." *Id.* Similarly, in this case the Fifth Circuit extended the *Mercoid* analysis beyond antitrust allegation

---

Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 704 (Fed. Cir. 1992) (holding that policy purpose of doctrine of misuse is to prevent patentee from using patent to expand market share beyond statutory patent right). In the present case, TII's antitrust counterclaims hinge instead on the alleged invalidity of Insultherm's patent and Insultherm's alleged fraud on the Patent Office. *See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 174 (1965) (holding that "the enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act provided [that] other elements necessary to a § 2 case are present"). In addition, TII has claimed that Insultherm instituted this action with knowledge that TII was not infringing the patent; that, too, is not the type of patent misuse at issue in *Mercoid*.

of patent misuse in other markets to include antitrust allegations based upon wrongful prosecution of a patent.[2]

Both *Hydranautics* and the Fifth Circuit's decision in this case, and to a lesser degree *Agrashell* and *Switzer*, stand in sharp contrast to the opinions of the Second and Fourth Circuits regarding *Mercoid*'s precedential value. In *United States v. Eastport Steamship Corp.*, the Second Circuit held that "[i]n view of the criticism which the decision has received and the failure of the Court to discuss the principles upon which the decision rests, we think that *Mercoid* cannot be taken as precedent for other than its own limited facts."[3] 255 F.2d at 805. Likewise, in *Burlington Industries, Inc. v. Milliken & Co.*, the Fourth Circuit also declined to follow *Mercoid*, holding that it "has been read narrowly" and that "its continuing validity is open to serious question." 690 F.2d at 389.

B. *Mercoid* in the District Courts

The conflict of authority over *Mercoid* involves the entire federal court system. While some district courts have questioned but nonetheless followed *Mercoid*,[4] more

---

[2] The district court drew this distinction between TII's claims and those alleged in *Mercoid* when it held that by limiting *Mercoid* to its facts, its holding was inapplicable to this case. (Appendix C, p. 14c & n.6.)

[3] The district court in this case identified *Mercoid*'s limited relevant facts to be "the assertion of antitrust claims based on patent misuse by a defendant involved in but not named in the previous infringement action." (Appendix C, at 14c.)

[4] *Longwood Mfg. Corp. v. Wheelabrator Clean Water Sys., Inc.*, 954 F. Supp. 17, 18 (D. Me. 1997) (noting that "[p]erhaps

have avoided it by limiting it strictly to its facts or by dismissing as dictum the opinion's discussion of counterclaims.[5] Commentators have also recognized the conflict among the circuits regarding *Mercoid's* approach to counterclaims.[6] Moreover, for more than fifty years, that recognition has been accompanied by severe criticism of the *Mercoid* Court's treatment of the counterclaim issue, even within the pages of preeminent treatises on federal practice.[7]

Mercoid . . . should be overruled, but that is not a decision for me to make"); *Reagan v. Commonwealth Theatres of Puerto Rico, Inc.*, 300 F. Supp. 676, 677 (D.P.R. 1969); *Douglas v. Wisconsin Alumni Research Found.*, 81 F. Supp. 167, 170 (N.D. Ill. 1948).

[5] *American Packaging Corp. v. Golden Valley Microwave Foods, Inc.*, No. 94-1839, 1995 WL 262522, at *4 (E.D. Pa. May 1, 1995); *Rohm and Haas Co. v. Brotech Corp.*, 770 F. Supp. 928, 933 (D. Del. 1991); *Grumman Sys. Support Corp. v. Data Gen. Corp.*, 125 F.R.D. 160, 164 (N.D. Cal. 1988) (characterizing the *Mercoid* holding as "broad sweeping dicta"); *USM Corp. v. SPS Techs., Inc.*, 102 F.R.D. 167, 170-71 (N.D. Ill. 1984); *Lewis Mfg. Co. v. Chisholm-Ryder Co.*, 82 F.R.D. 745, 749-50 (W.D. Pa. 1979); *Borden Co. v. Sylk*, 42 F.R.D. 429, 432 (E.D. Pa. 1967).

[6] 6 CHARLES ALAN WRIGHT, ARTHUR R. MILLER, AND MARY KAY KANE, FEDERAL PRACTICE AND PROCEDURE § 1412 (2d ed. 1990); Richard Calkins, *Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims*, 38 DRAKE L. REV. 175, 202 n. 84 (1989); John J. Barnhardt, III, *Counterclaiming in Patent Infringement Litigation*, 15 AIPLA Q.J. 175, 179-80 (1987).

[7] CHARLES ALAN WRIGHT, LAW OF FEDERAL COURTS § 79, at 529 (4th ed. 1983) (characterizing *Mercoid's* counterclaim discussion as "dictum" that "has been sharply criticized" and not regarded "as precedent for other than its own limited facts"); 6 CHARLES ALAN WRIGHT, ARTHUR R. MILLER, AND MARY KAY KANE, FEDERAL PRACTICE AND PROCEDURE § 1412 (2d ed. 1990) (stating that "[i]t is difficult to understand why the Court thought that the

C. *Mercoid*'s Absurd Results

The facts of this case provide a compelling example of the absurd and unjust results required by *Mercoid* under its interpretation by the Fifth and Ninth Circuits in this case and *Hydranautics*. In the patent case originally filed by Insultherm, TII chose not to counterclaim for antitrust violations. At trial, however, TII introduced allegations of anticompetitive behavior by Insultherm and Thermacon in its attempt to demonstrate the invalidity of Insultherm's patent. TII's counsel specifically questioned Petitioner Mark McBride, president of Insultherm, about the cross license agreement between Insultherm and Thermacon, characterizing it as "a sham." (Appellate Record Excerpts (hereinafter "R.E."), p. 120.) After introducing the cross license agreement at trial, (R.E. at

---

counterclaim was permissive," that "the discussion of whether the counterclaim was compulsory in the first action was entirely unnecessary to the court's ultimate decision," and that the decision "has been severely criticized and on more than one occasion may have been disregarded by a federal court"); 3 JAMES WILLIAM MOORE, MOORE'S FEDERAL PRACTICE § 13.12[2] (1997) (calling *Mercoid* "unnecessarily broad"); Calkins, 38 DRAKE L. REV. at 202 n. 84 (noting that "*Mercoid* has been criticized for many reasons," but that "its declaration that an antitrust counterclaim based on the patent or suit is permissive rather than compulsory has found more than its share of critics"); Barnhardt, 15 AIPLA Q.J. at 179-83 (noting "that the Supreme Court's decision permitting Mercoid to assert its counterclaim might be different if that issue were to reach the Court today" and that "as a practical if not intellectual matter, there is little choice other than to regard the *Mercoid* Court's review of antitrust counterclaims in patent infringement litigation as unreliable"); Lawrence I. Wood, *The Tangle of Mercoid Case Implications*, 13 GEO. WASH. L. REV. 61, 81-83 (1944).

119-20), TII's counsel elicited testimony regarding its provision that Insultherm and Thermacon would "help each other in any litigation." (R.E. at 126.) He also offered evidence of correspondence noting that, by cross licensing, Insultherm and Thermacon "are able to establish a minimum sales price to each other, thereby in effect placing a floor under the market price." (R.E. at 114-15.) Finally, counsel characterized Insultherm and Thermacon as "direct competitors" and queried McBride as to whether they had established the cross license to "divide the market." (R.E. at 115-16.)

More importantly, TII proposed findings of fact that included several findings later raised as allegations in its antitrust case. Among the proposed findings were: (1) that the cross license agreement "expressly obligates each of the parties to assist each other in the event of litigation," (Finding No. 34); (2) that the cross license agreement "provides preferential royalty treatment to either Thermacon or Insultherm depending on the geographical section of the country in which the insulation job is provided," (Finding No. 35); and (3) that the cross license agreement "was nothing more than . . . a slimly veiled division of the market in the United States by Insultherm and Thermacon," (Finding No. 36). (S.R. 347.) The district court adopted TII's proposed findings of fact (R.E. at 3-11), and then dismissed Insultherm's patent infringement claim, holding that the patent was unenforceable. (R.E. at 304-05.) The Federal Circuit, however, reversed and remanded the case to district court. *Insultherm I*, 1995 WL 453400, at *5.

Following the Federal Circuit's reversal, TII reasserted its claims of anticompetitive behavior as a new,

antitrust action, and sought leave to file the allegations as an antitrust counterclaim in the original suit brought by Insultherm. According to the Fifth Circuit, *Mercoid* allows such a strategy to occur without notice to the putative defendant that it is going to be sued for antitrust violations. A patentee may now be required to go to trial without fundamental notice of what claims are truly being litigated at the trial. As happened here, an infringement defendant may "hold back" its antitrust claims and attempt to secretly obtain useful "admissions" from the patentee's witnesses to be used in a later-filed antitrust case without any notice to the patentee that the antitrust issues are being litigated at the trial of the patent infringement case.

This Court has held that the compulsory counterclaim rule is intended

> to prevent multiplicity of actions and to achieve resolution in a single lawsuit of all disputes arising out of common matters. The Rule was particularly directed against one who failed to assert a counterclaim in one action and then instituted a second action in which that counterclaim became the basis of the complaint.

Southern Constr. Co. v. Pickard, 371 U.S. 57, 60 (1962). This case epitomizes the situation that the rule was designed to prevent. TII has raised its antitrust claim now in two actions, and the parties briefed two sets of appeals to different circuit courts. Moreover, TII consciously chose to refrain from giving notice of its claim until after it had obtained antitrust-type "findings" in the patent case. Such is the absurdity *Mercoid* has wrought.

D. Conclusion

The issue presented in this petition concerns the application of an important concept of federal procedure – the compulsory counterclaim – to two exclusive realms of federal jurisdiction: patent infringement actions and claims brought under the Sherman Antitrust Act. For over a half century, courts have struggled with the question and have come to markedly different conclusions. This Court should review the questions presented and provide needed guidance to the federal courts to use in their efforts to resolve disputes efficiently in the burgeoning field of intellectual property litigation.

II

THE FIFTH CIRCUIT'S ASSERTION OF JURISDICTION OVER THIS CASE CONFLICTS WITH DECISIONS BY THE ONLY COURT OF PROPER JURISDICTION

The Fifth Circuit's decision to take jurisdiction of TII's appeal, for which the court offered no supporting authority, is contrary to decisions of both this Court and the Federal Circuit, which have concluded that jurisdiction is vested exclusively *in the Federal Circuit* after a patent issue is included in the suit, *regardless of whether the patent issue remains at the time of the appeal.* Because the Federal Circuit is powerless to prevent other courts of appeals from taking jurisdiction of cases that belong to it exclusively, the need for this Court to resolve this conflict of authority is especially urgent.

The Court of Appeals for the Federal Circuit is granted exclusive jurisdiction over "an appeal from a

final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part, on [28 U.S.C.] section 1338." 28 U.S.C. § 1295(a)(1). If a case is brought under section 1338, or if a case " 'arise[s] under' " a federal patent statute, then any appeal of the case must be brought before the Federal Circuit. *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 807 (1988). Although TII brought its antitrust action in the district court pursuant to the Sherman Act, the district court consolidated TII's claim with Insultherm's patent infringement action, over which the district court had jurisdiction pursuant to 28 U.S.C. § 1338. Once the two cases were consolidated, TII's antitrust claim proceeded as a counterclaim to Insultherm's patent infringement claim. (*Id.*) Thus, the district court's jurisdiction over the case was indisputably based, in whole or in part, on 28 U.S.C. § 1338. Any appeal of the case – regardless of whether the appeal involved patent issues – therefore properly rested in the Federal Circuit. 28 U.S.C. § 1295(a)(1); *Christianson*, 486 U.S. at 807; *Natec, Inc. v. Deter Co.*, 28 F.3d 28, 29 (5th Cir. 1994); *U.S. Philips Corp. v. Windmere Corp.*, 861 F.2d 695, 702 (Fed. Cir. 1988), *cert. denied*, 490 U.S. 1068 (1989); *In re Innotron Diagnostics*, 800 F.2d 1077, 1080 (Fed. Cir. 1986).

The Fifth Circuit's decision in this case regarding its jurisdiction over TII's appeal conflicts with decisions of the Federal Circuit in three ways. First, it stands in direct contravention of those Federal Circuit cases that interpret section 1295(a)(1) to provide the Federal Circuit with exclusive jurisdiction over appeals of cases that arose, in whole or in part, under section 1338, regardless of whether patent-related claims are at issue upon appeal.

Technicon Instruments Corp. v. Alpkem Corp., 866 F.2d 417, 419 (Fed. Cir. 1989) (holding that even though patent issues had been previously disposed of, court retained jurisdiction over appeal of antitrust counterclaim); *U.S. Philips*, 861 F.2d at 702 (stating that the Federal Circuit retains jurisdiction "even though the appeal presents no questions under the patent laws").

Second, the Fifth Circuit's rationalization of taking jurisdiction over TII's appeal on the grounds that the consolidation order was vacated, thereby returning the antitrust action "to its original, independent status," also conflicts with Federal Circuit case law. By so holding, the Fifth Circuit has ignored the Federal Circuit's caution that the "labeling and sequencing" of pleadings in the trial court does not control the exercise of the Federal Circuit's jurisdiction. *Innotron*, 800 F.2d at 1080. The district court dismissed TII's antitrust claim and vacated the consolidation order in the same lengthy opinion and order. Jurisdiction vested when the patent and antitrust claims were consolidated. According to Federal Circuit precedent, jurisdiction should not detach simply because the district court vacated its consolidation order as part and parcel of the same order dismissing the claim. *See id.* The antitrust action could not have "returned to its original, independent status" because in the same order, the district court had already concluded that those claims should be dismissed.

Third, the Fifth Circuit's decision to assert jurisdiction in this case conflicts with Federal Circuit authority holding that once it has exercised its jurisdiction over the appeal of a certain matter, the Federal Circuit should continue to hear subsequent appeals of the same case.

Korody-Colyer Corp. v. General Motors Corp., 828 F.2d 1572, 1574 (Fed. Cir. 1987). The patent infringement portion of this case has been before the Federal Circuit not once, but twice. The district court's original dismissal of Insultherm's claim was reversed and remanded by the Federal Circuit prior to the consolidation of the patent infringement case with TII's antitrust action. On the second occasion, the Federal Circuit *affirmed* the district court's overruling of TII's motion for leave to file a counterclaim, part of the *same district court order* that the Fifth Circuit has now reversed, and for which Petitioners now seek certiorari. As Petitioners requested below, the Fifth Circuit should have transferred TII's appeal of the dismissal of the antitrust action to the Federal Circuit. *See Natec*, 28 F.3d at 29 (transferring appeal to Federal Circuit because it was the court of proper jurisdiction); *Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604, 607-08 (1st Cir. 1987) (transferring appeal to the Federal Circuit because antitrust claim, coupled with a patent infringement claim, meant that jurisdiction of entire case was in Federal Circuit).

Should other courts of appeals follow the Fifth Circuit's lead and create their own unsupported exceptions to section 1295(a)(1), the Congressionally mandated exclusivity of the Federal Circuit's jurisdiction would be compromised. Because the Federal Circuit is powerless to prevent such attacks on its jurisdiction, this Court's review is imperative.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

SYDNEY LEACH
Counsel of Record
JANE NENNINGER BLAND
JOAN ALISON JUBAN
JEFFREY VINCENT BROWN
BAKER & BOTTS, L.L.P.
910 Louisiana Street
Houston, Texas 77002-4995
Telephone: (713) 229-1234

J. BRUCE BENNETT
LEON V. KOMKOV
BASKIN, BENNETT & KOMKOV
807 Brazos Street, Suite 901
Austin, Texas 78701
Telephone: (512) 322-9250

Counsel for Petitioners

May 27, 1997

APPENDIX A

TANK INSULATION INTERNATIONAL, INCORPORATED, Plaintiff-Appellant,

v.

INSULTHERM, INC.; et al., Defendants,

Insultherm, Inc.; Mark A. McBride; Thermacon, Inc., Defendants-Appellees.

No. 96-40019.

United States Court of Appeals, Fifth Circuit.

Jan. 29, 1997.

Appeal from the United States District Court for the Southern District of Texas.

Before REYNALDO G. GARZA, JOLLY and DeMOSS, Circuit Judges.

E. GRADY JOLLY, Circuit Judge:

This appeal presents the question whether a Sherman Act antitrust claim is a compulsory counterclaim in a patent infringement action. The district court concluded that the claim was a compulsory counterclaim and held that, because it was not raised in the prior infringement action, it was barred by Federal Rule of Civil Procedure 13(a). The district court, therefore, dismissed the antitrust complaint, and Tank Insulation International, Inc. ("TII") appeals. We reverse the judgment of the district court.

I

In the fall of 1993, Insultherm, Inc. ("Insultherm") filed a patent infringement action against TII. TII counterclaimed for a declaratory judgment that the patent was invalid. The action was filed in the District Court for the Southern District of Texas, Galveston Division. The district court dismissed Insultherm's case under Federal Rule of Civil Procedure 52(c), holding that the patent was unenforceable. Insultherm appealed, and the Federal Circuit reversed and remanded, holding that the evidence was insufficient to support dismissal of the case.

In January 1995, while the appeal of the dismissal of Insultherm's action was pending, TII filed this antitrust action against Insultherm, Thermacon, Inc. ("Thermacon"), and Mark McBride ("McBride") in the District Court for the Southern District of Texas, Victoria Division. Upon agreement of the parties, the antitrust action was transferred to the Galveston Division and was consolidated with the infringement action that had, at that point, been remanded by the Federal Circuit.

The trial court subsequently vacated its consolidation order. The court then dismissed the antitrust suit, finding that it was a compulsory counterclaim to the earlier patent infringement action and that it had been waived by TII's failure to plead it in the infringement answer. The district court further denied TII's motion for leave to file the antitrust claim as a counterclaim to the infringement action.

In accordance with 28 U.S.C. § 1295(a)(1), TII appealed to the Federal Circuit the denial of the motion for leave to plead a counterclaim. The Federal Circuit

affirmed the denial. Simultaneously, TII appealed the dismissal of its severed antitrust suit to this court. It is this appeal that is before us today.

II

A

Insultherm, Thermacon and McBride first contend that this court lacks appellate jurisdiction over TII's appeal. In support of their position, they rely on 28 U.S.C.A. § 1295(a)(1), which states that "[t]he United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction . . . of an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title." Insultherm, Thermacon and McBride assert that, because the trial court's jurisdiction over the infringement action arose from section 1338, jurisdiction over the consolidated action arose, at least in part, from that statute and, therefore, jurisdiction is in the Federal Circuit. This contention, however, fails to account for the trial court's decision to vacate the consolidation order. The district court originally had jurisdiction of the matter on appeal before us based upon the Sherman Antitrust Act and federal question jurisdiction. *See* 15 U.S.C.A. § 15(a) (West Supp. 1996); 28 U.S.C.A. § 1331 (West 1993); 28 U.S.C.A. § 1337 (West Supp. 1996). So long as the actions were consolidated, section 1295 unquestionably vested the Federal Circuit with exclusive jurisdiction of the entire action; however, when the consolidation order was vacated, the antitrust action returned to its original, independent status. Therefore,

appellate jurisdiction is proper in this court under 28 U.S.C.A. § 1291.

B

The sole question remaining before us is whether an antitrust claim based upon an alleged conspiracy to file a wrongful patent infringement lawsuit is barred by the failure to raise the allegation as a counterclaim in the earlier infringement action. In short, we must determine whether the antitrust action was a compulsory counterclaim to the patent infringement action.

(1)

Compulsory counterclaims are addressed by Federal Rule of Civil Procedure 13(a), which reads:

> [a] pleading shall state as a counterclaim any claim which at the time of serving the pleading the pleader has against any opposing party, if it arises out of the transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction.

This rule provides the test for determining whether TII's antitrust claim is barred by TII's failure to assert the claim in the infringement action filed by Insultherm against TII.

We have previously addressed the appropriate inquiry to determine whether a claim is a compulsory counterclaim. In making such a determination, courts should ask:

> (1) whether the issues of fact and law raised by the claim and counterclaim largely are the same; (2) whether *res judicata* would bar a subsequent suit on defendant's claim absent the compulsory counterclaim rule; (3) whether substantially the same evidence will support or refute plaintiff's claim as well as defendant's counterclaim; and (4) whether there is any logical relationship between the claim and the counterclaim.

Park Club, Inc. v. Resolution Trust Corp., 967 F.2d 1053, 1058 (5th Cir. 1992) (citing *Plant v. Blazer Finan. Servs.*, 598 F.2d 1357, 1360 (5th Cir. 1979)). If *any* of these four questions results in an affirmative answer then the counterclaim is compulsory. *Id.*

The district court applied this test and concluded that TII's claim was barred because it was a compulsory counterclaim that TII had failed to assert in the infringement answer. We review the district court's decision that the claim was barred *de novo*. *See, e.g., Driver Music Co. v. Commercial Union Ins. Cos.*, 94 F.3d 1428, 1435 (10th Cir. 1996); *Montgomery Ward Dev. Corp. v. Juster*, 932 F.2d 1378, 1379 (11th Cir. 1991). The claim asserted by TII is logically related to the infringement action pursued by Insultherm. The core tenet of TII's antitrust claim is that Insultherm violated the antitrust laws by instituting an infringement action for the allegedly invalid patent. Given this clear connection, it follows that TII raised much of the same conduct by Insultherm as defenses to the infringement action that it now asserts as the basis of its antitrust claim. The evidence in the two actions is largely the same, and the two claims raise common issues of law and fact, including the allegedly fraudulent procurement of the subject patent, the validity of the patent and the existence

vel non of any infringement. We therefore conclude that under the test set forth above, TII's antitrust claim is properly classified as a compulsory counterclaim that was required by rule 13(a) to be raised in the original infringement action. Absent some exception, therefore, TII is barred from pursuing this antitrust action, and the district court's judgment must be affirmed.

(2)

(a)

TII argues that, even if its claim meets the established definition of a compulsory counterclaim, it is not barred because it is saved by *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 64 S. Ct. 268, 88 L.Ed. 376 (1944). If TII is correct – that the Supreme Court carved out an exception to rule 13(a) for antitrust claims based on infringement actions – then this action must proceed. We have taken a very careful look at *Mercoid*, including all of its relevant background, especially because the case appears to be in conflict with rule 13(a). Notwithstanding very little analysis by the Supreme Court, we are persuaded that the Court fully intended to say what it said and that the holding was not dicta. *Mercoid* is, therefore, binding precedent and decides the question before us.

In *Mercoid*, Mid-Continent sued Mercoid for contributory infringement of a patent, contending that Mercoid manufactured a heating control device that infringed a patent held by Mid-Continent. *Mercoid*, 320 U.S. at 662, 64 S. Ct. at 269. Mercoid then asserted an antitrust counterclaim against Mid-Continent, alleging that Mid-Continent and its exclusive licensee under the subject patent "had

conspired to expand the monopoly of the patent in violation of the anti-trust laws." *Id.* However, this suit by Mid-Continent (and the counterclaim by Mercoid) was brought against the background of another suit. Some five years earlier, Mid-Continent had sued Smith, a Mercoid customer, for infringement of the same patent. *See Smith v. Mid-Continent Inv. Co.*, 106 F.2d 622 (8th Cir. 1939). The defense for Smith "was conducted by the attorney for and at the expense of Mercoid." *Mid-Continent Inv. Co. v. Mercoid Corp.*, 133 F.2d 803, 805 (7th Cir. 1942). The *Smith* court rendered judgment for Mid-Continent, holding that the subject device was patentable and that Smith was guilty of infringement. *Smith*, 106 F.2d at 631. The *Smith* court, however, did not address the validity of the subject patent other than to ascertain that the device was patentable. *Id.* at 631. The failure to address the validity of the patent was attributable to the fact that Smith had not raised the validity of the patent as a defense, nor had Smith raised as a defense the misuse of the patent or the violation of the antitrust laws. *Id.* at 624; *see also Mercoid*, 320 U.S. at 669-71, 64 S. Ct. at 273.

Thus, some five years later, when Mercoid was defending against Mid-Continent's suit for infringement and was asserting a counterclaim for antitrust violations, Mid-Continent raised the defense of res judicata as to both Mercoid's defenses and its counterclaim. Mid-Continent argued that, because Mercoid had defended the previous action, i.e., was in privity with Smith, the principle of res judicata acted to bar litigation of "issues which were actually litigated and all issues which might have been raised in that earlier suit." *Mercoid*, 320 U.S. at 669, 64 S. Ct. at 273. Specifically, Mid-Continent argued

that misuse and antitrust violations were among the defenses that Smith (Mercoid) could have raised in the earlier litigation and that those defenses were no longer available to Mercoid. *Id.*

The Supreme Court, it should be noted, was apparently concerned that Mid-Continent lacked clean hands in the litigation with Mercoid. The Court, clearly assuming that Mercoid was in privity with Smith, concluded that even if Mercoid were specifically bound by the earlier judgment, the additional defenses would not be barred because, as a court of equity, it would not "aid in the consummation of a conspiracy to expand a patent beyond its legitimate scope." *Id.* The Court held that it had the discretion to "withh[o]ld aid from a patentee in suits for either direct or indirect infringement where the patent was being misused" and that the failure to raise the defense of misuse of the patent in the earlier action could not deprive the court of that discretion. *Id.* Furthermore, the Court stated that, even if Mercoid were bound by the earlier judgment as it related to defenses to Mid-Continent's contributory infringement action, Mercoid's counterclaim against Mid-Continent would still be valid. *Id.*, 320 U.S. at 669-72, 64 S. Ct. at 273-74. Specifically, the Court stated

> [even if] Mercoid were barred in the present case from asserting any defense which might have been interposed in the earlier litigation, it would not follow that its counterclaim for damages would likewise be barred. That claim for damages is more than a defense; it is a separate statutory cause of action. The fact that it might have been asserted as a counterclaim in the prior suit by reason of Rule 13(b) of the Rules of

> Civil Procedure . . . does not mean that failure to do so renders the prior judgment res judicata as respects it.

Id. The Court held that the question whether Mercoid could bring its counterclaim in the present action was controlled by the rule that "where the second cause of action between the parties is upon a different claim the prior judgment is res judicata not as to issues which might have been tendered but 'only as to those matters in issue or points controverted upon the determination of which the finding or verdict was rendered.' " *Id.*

There is little difference in the posture of the case before the Court in *Mercoid* and our case today. The counterclaim that Mercoid was asserting against Mid-Continent, which had been also available in the earlier suit, was based upon the contention that Mid-Continent was using the litigation process to extend the scope of its patent to unpatented devices and that Mid-Continent thereby was violating the antitrust laws by extending its monopoly beyond the scope of the patent. *See* Excerpts from brief of Mercoid Corp. (reprinted at 88 L.Ed. 377 (1943)); *Mercoid*, 320 U.S. at 662, 64 S. Ct. at 269. In short, Mercoid's counterclaim alleged that the patent infringement litigation violated the antitrust laws. *See Hydranautics v. Filmtec Corp.*, 70 F.3d 533, 536 (9th Cir. 1995). This is the same allegation that TII asserts in its antitrust claim, which we have made clear has every indicia of a compulsory counterclaim under rule 13(a). It follows, therefore, that Mercoid's counterclaim satisfied the established definition of a compulsory counterclaim.

Thus, viewing the Supreme Court's statement, block-quoted above, in the context of the full litigation in *Mercoid*, the Court indeed created an exception to rule 13(a) for antitrust counterclaims in which the gravamen is the patent infringement lawsuit initiated by the counterclaim defendant. The Court clearly accepted, at least for purposes of its opinion, that Mercoid occupied a position equivalent to a party in the first action. Furthermore, the Court plainly held that the antitrust counterclaim was permissive – controlled by rule 13(b) – and, therefore, not barred in the second action. Thus, we cannot agree with those commentators who suggest that, because Mercoid was not a party to the previous infringement action, any discussion of rule 13 by the *Mercoid* Court is dicta.[1] It is apparent from the Court's discussion that it accepted Mid-Continent's position that Mercoid could be bound by res judicata as a result of the *Smith* decision and, consequently, treated Mercoid as a party to the previous action. Furthermore, it is clear that the Court specifically considered rule 13's application to the question before it and expressly and unambiguously held that the counterclaim was permissive.[2] Such a holding is an express holding that the counterclaim was not compulsory because under

---

[1] *See* 6 Charles A. Wright, *Federal Practice and Procedure* § 1412, at 91 (West 1990) (noting "the discussion of whether the counterclaim was compulsory in the first action was entirely unnecessary to the court's ultimate decision, since Mercoid, although it provided the defense in the prior action, had not been a party to it and could not possibly have been foreclosed from bringing its claim . . . by Rule 13(a)").

[2] This discussion of rule 13 is not dicta because the classification of the counterclaim as permissive was necessary to reach the judgment allowing the counterclaim to proceed.

rule 13 a counterclaim is either compulsory or permissive – it cannot be both.

(b)

We must admit that the courts that have considered *Mercoid* have not reached uniform conclusions, although this lack of uniformity may be partially explained by factual distinctions. The Ninth Circuit, however, recently cited *Mercoid* in a case quite similar to the one before us today. *Hydranautics v. Filmtec Corp.*, 70 F.3d 533, 536 (9th Cir. 1995). There, the court first noted that the "identity of issues" between the patent infringement claim and the antitrust counterclaim suggested classifying the antitrust claim as compulsory. *Id.* at 537. It went on the [sic] state, however, that *Mercoid* "leaves open the possibility of raising antitrust claims as permissive counterclaims in an infringement action, or in a separate and subsequent action."[3] *Id.* at 536. We agree with the Ninth Circuit. We are not persuaded by those courts that have attempted to avoid the *Mercoid* holding by limiting the holding of the

---

[3] Other courts have also cited *Mercoid* with approval, although not in cases as similar to this case as *Hydranautics*. *See, e.g., Agrashell, Inc. v. Hammons Prods. Co.*, 479 F.2d 269, 287 (8th Cir.), *cert. denied*, 414 U.S. 1022, 94 S. Ct. 445, 38 L.Ed.2d 313 (1973) (concluding that plaintiff's argument that antitrust claim should be barred because of failure to raise in first infringement action between parties was precluded by *Mercoid*); *Switzer Bros., Inc. v. Locklin*, 207 F.2d 483, 487 (7th Cir. 1953), *cert. denied*, 347 U.S. 912, 74 S. Ct. 477, 98 L.Ed. 1069 (1954) (concluding that intervenor's antitrust claim was permissive counterclaim under *Mercoid*).

case specifically to cases involving the identical facts presented in *Mercoid*.[4]

We therefore hold, for the reasons stated above, that *Mercoid* creates a limited exception to rule 13(a) for antitrust claims in which the gravamen is the patent infringement lawsuit initiated by the counterclaim defendant.[5]

III

In conclusion, we hold that this court has jurisdiction because the district court vacated its consolidation order and, as a result, Insultherm's infringement action and TII's antitrust action reverted to their original status as independent cases. Jurisdiction over the case presently on appeal is not premised on 28 U.S.C. § 1338 and, thus, the Federal Circuit does not have exclusive jurisdiction.

Furthermore, Federal Rule of Civil Procedure 13(a) requires that certain claims be asserted as counterclaims in order to promote judicial economy and fairness. Absent an applicable exception, the present claim should have been raised as a counterclaim under rule 13(a). The Supreme Court in *Mercoid*, however, created an exception to rule 13(a) that saves TII's claim. Under *Mercoid*, claims

---

[4] *See Burlington Indus. Inc. v. Milliken & Co.*, 690 F.2d 380, 389 (4th Cir. 1982), *cert. denied*, 461 U.S. 914, 103 S. Ct. 1893, 77 L.Ed.2d 283 (1983); *United States v. Eastport Steamship*, 255 F.2d 795, 805 (2nd Cir. 1958).

[5] Because of the fit of the facts between Mercoid's counterclaim and TII's counterclaim, it is unnecessary for us to decide today whether the *Mercoid* exception applies to every antitrust counterclaim arising in the patent infringement context.

of this type are only permissive counterclaims, falling under rule 13(b), and therefore, are not barred if a party chooses to bring the claim after the conclusion of the initial action.

We thus hold that TII's claim is not barred by rule 13(a). The judgment of the district court is REVERSED and the case is REMANDED for further proceedings not inconsistent with this opinion.

REVERSED and REMANDED.

APPENDIX B

IN THE UNITED STATES COURT OF APPEALS

FOR THE FIFTH CIRCUIT

No. 96-40019

TANK INSULATION INTERNATIONAL INCORPORATED

Plaintiff - Appellant

v.

INSULTHERM INC; ET AL

Defendants,

INSULTHERM INC; MARK A MCBRIDE; THERMACON INC;

Defendants - Appellees

Appeal from the United States District Court for the Southern District of Texas, Galveston

---

Before REYNALDO G. GARZA, JOLLY, AND DeMOSS, Circuit Judges.

PER CURIAM:

IT IS ORDERED that the motion of appellee Thermacon Inc for leave to file petition for rehearing out of time is DENIED.

IT IS FURTHER ORDERED that the petition for rehearing filed by Insultherm, Inc. and Mark A. McBride in the above case is DENIED.

ENTERED FOR THE COURT:

/s/ E. GRADY JOLLY
United States Circuit Judge

APPENDIX C

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
GALVESTON DIVISION

INSULTHERM, INC.	§	
VS.	§	CIVIL ACTION NO.
TANK INSULATION INTERNATIONAL, INC.	§	G-93-558
TANK INSULATION INTERNATIONAL INC.	§	
VS.	§	CIVIL ACTION NO.
INSULTHERM, INC., THERMACON, INC., and MARK A. MCBRIDE	§	G-95-348
	§	CONSOLIDATED

ORDER

Presently before the Court are Insultherm, Inc.'s Motion for Reconsideration; Mark McBride's and Insultherm's joint Motion to Dismiss, or Alternatively, for Summary Judgment; and Tank Insulation, Inc.'s Motion for Leave to File Counterclaim. As will be set forth in detail below, Tank Insulation's Motion is hereby **DENIED**, and Insultherm's Motion for Reconsideration and Insultherm's and McBride's Motion to Dismiss are hereby **GRANTED**.[1]

---

[1] The Court's disposition of these Motions moots the Motion to Dismiss filed by Thermacon, Inc.

I. BACKGROUND

On September 20, 1993, Insultherm, Inc. filed an action (the First Action) against Tank Insulation International, Inc. (TII), contending TII's insulation system for large storage tanks infringed on Insultherm's insulation system covered by U. S. Patent No. 4,545,490 (the '490 patent). Insultherm also sued TII for unfair competition under section 43(a) of the Lanham Act, 15 U.S.C. § 1125. In its answer to the First Action, TII counterclaimed, seeking a declaratory judgment that the '490 patent was invalid. TII contended that Insultherm and Defendant Mark McBride, a shareholder and officer of Insultherm, and inventor of the '490 patent, engaged in fraudulent or inequitable conduct before the United States Patent and Trade Office (the PTO), rendering the '490 patent invalid or unenforceable.

At the trial of the First Action in April 1994, this Court concluded that McBride engaged in inequitable and fraudulent conduct before the PTO during the prosecution of the '490 patent. The Court declared the '490 patent unenforceable, and dismissed Insultherm's infringement and unfair competition claims against TII. However, the Court did not reach the question of the validity of the '490 patent, and dismissed TII's counterclaims against Insultherm. *See* Final Judgment, No. 93-CV-558, dated June 10, 1994. Insultherm appealed the decision of this Court in the First Action. On April 25, 1995, the United States Court of Appeals for the Federal Circuit vacated this Court's decision and remanded the First Action for retrial.

On January 26, 1995, before the Federal Circuit's decision in the First Action, TII filed a complaint against Insultherm, Thermacon, and McBride (the Second Action) in the United States District Court for the Southern District of Texas, Victoria Division. In the Second Action, TII contends Insultherm and Thermacon violated the Sherman Act by acting in concert to file the First Action against TII knowing that the '490 patent was unenforceable, without determining if TII was in fact infringing on the '490 patent, and without regard to outcome of the infringement action. On June 1, 1995, the Second Action was transferred to this Court, and, on June 29, 1995, this Court granted TII's Motion to Consolidate the First Action and the Second Action and its Motion for Leave to File Counterclaim. The Court directed that the claims raised by TII in the Second Action were to be treated as counterclaims to Insultherm's claims in the First Action.

Thermacon, a Defendant in the Second Action, is yet another player in the tank insulation game, and holds a patent for its particular insulation system. According to TII's complaint in the Second Action, Insultherm accused Thermacon of infringing on the '490 patent. In response, Thermacon claimed the '490 patent was invalid because it had been obtained through inequitable conduct. According to TII, Insultherm and Thermacon resolved the infringement dispute by entering into an agreement (the Licensing Agreement) whereby they agreed to cross-license the Thermacon patent and the '490 patent. The Licensing Agreement gives each party the right to use and sell both insulation systems within what the Licensing Agreement describes as the other party's "exclusive

license area."[2] In addition, the Licensing Agreement contains provisions requiring Insultherm and Thermacon to notify the other of any suspected infringement of its patent and cooperate in any infringement suit. The cooperation contemplated under the Licensing Agreement includes having employees testify when requested by the other party, and making available any records or other information that may be needed. TII contends that Thermacon had "intimate knowledge" of the '490 patent and knew the '490 patent was invalid before it entered into the Licensing Agreement, and that Thermacon suggested Insultherm take actions against TII to enforce the '490 patent in spite of its knowledge that the '490 patent was unenforceable.

II. INSULTHERM'S MOTIONS

Insultherm has filed a Motion requesting this Court reconsider its June 29 Orders, and Insultherm and McBride have filed a Motion requesting this Court dismiss TII's Complaint in the Second Action, or, alternatively, grant summary judgment against TII's antitrust claims. The arguments in the Motion to Reconsider are essentially the same as those in the Motion to Dismiss; accordingly, these Motions will be considered together.

---

[2] Under the Licensing Agreement, Insultherm's exclusive licensing area primarily consists of the Gulf states, including Texas. Thermacon's exclusive licensing area primarily consists of states in the Northeast.

In support of their Motion to Dismiss, Insultherm and McBride primarily contend TII's antitrust counterclaims were compulsory counterclaims that TII should have raised in the First Action.[3] They argue that to allow TII to pursue its antitrust counterclaims at this stage in the litigation, more than one year after the first trial, would be extremely costly and would unnecessarily and unfairly protract the litigation.

Under the Federal Rules of Civil Procedure, a compulsory counterclaim is one that "arises out of the transaction or occurrence that is the subject matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction." Fed. R. Civ. Pro. R. 13(a). Thus, under Rule 13, the inclusion of Thermacon and McBride, who were not parties to the First Action, prevents the antitrust claims from being characterized as compulsory counterclaims only if Thermacon and McBride are necessary parties to the antitrust claims, and this Court lacks personal jurisdiction over them. Fed. R. Civ. Pro. 13(a); *see also Asset Allocation & Management Co. v. Western Employers Ins. Co.*, 892 F.2d 566, 574 (7th Cir.

---

[3] In their initial Motion to Dismiss, Insultherm and McBride argued TII's counterclaims were barred under the doctrine of *res judicata*. However, after the Federal Circuit vacated and remanded this Court's decision in the First Action, Insultherm and McBride abandoned their *res judicata* arguments. *See* Insultherm's and McBride's Reply Brief, p. 1, n.1. Insultherm and McBride also contend TII has failed to state an antitrust claim; however, because of the Court's disposition of the counterclaim issue, the Court does not reach this argument.

1989) (fact that counterclaim named additional parties does not prevent counterclaim from being characterized as compulsory if personal jurisdiction exists over the additional parties); *Zurn Indus. v. Acton Constr. Co.*, 847 F.2d 234, 236 (5th Cir. 1988) (if a party is added pursuant to a compulsory counterclaim, the court has ancillary jurisdiction over the claim or the party even in the absence of an independent basis for federal jurisdiction); *Albright v. Gates*, 362 F.2d 928, 929 (9th Cir. 1966) (in case where defendant in slander action asserted counterclaims against plaintiff and additional parties, there was sufficient overlapping of factual background to characterize the counterclaims as compulsory as to the original plaintiff and new parties); *Rohm & Haas Co. v. Brotech Corp.*, 770 F. Supp. 928, 934 (D. Dela. 1991) (antitrust claims asserted by defendant in separate action were compulsory counterclaims despite fact that the claims were asserted against other parties in addition to the plaintiff in the original patent infringement suit); *AMP Inc. v. Zacharias*, No. 87-C-3244, 1987 WL 12676 at *2 (N.D. Ill. June 15, 1987) (fact that there is not complete identity of issues and parties does not prevent claim from being a compulsory counterclaim). McBride is a resident and citizen of Texas; thus, there is no question that this Court has jurisdiction over him. In addition, while Thermacon is a Delaware corporation with offices in New York, it is nonetheless subject to jurisdiction in Texas, at least as to TII's claims against it.

In federal court, personal jurisdiction over a nonresident defendant is proper if: (1) the defendant is amenable to service of process under the forum state's long-arm statute; and (2) the exercise of personal jurisdiction

over the defendant is consistent with due process. *Jones v. Petty-Ray Geophysical Geosource, Inc.*, 954 F.2d 1061 (5th Cir.), *cert. denied*, 113 S. Ct. 193 (1992).[4] The Texas long-arm statute authorizes service of process on a nonresident defendant if the defendant "does business" in Texas. A nonresident does business in Texas if the nonresident, *inter alia*, "commits a tort in whole or in part in [Texas]." Tex. Civ. Prac. & Rem. Code Ann. § 17.042(2). According to TII, Thermacon conspired with Insultherm by bringing the First Action against TII in spite of its knowledge that the '490 patent was invalid. For purposes of this personal jurisdiction analysis, conspiracy to commit antitrust violations is in the nature of a tort. *Black v. Acme Markets, Inc.*, 564 F.2d 681, 685 (5th Cir. 1977) ("Delictual conduct violative of the anti-trust laws may be treated analogously to tortious conduct" for the purpose of a personal jurisdiction analysis). Thermacon's conduct was directed at and caused injury to TII in Texas. Therefore, by conspiring with Insultherm to wrongfully bring an infringement action based on an invalid patent, Thermacon committed a tort in Texas, and is amenable to service of process under the Texas long arm statute. *Acme Markets*, 564 F.2d at 685-86 (where conduct violating antitrust laws occurred outside Texas, defendant was subject to service

---

[4] In response to Thermacon's Motion to Dismiss, TII argues the traditional due process analysis is unnecessary in this case because the Sherman Act provides for nationwide service of process. Because the Court finds jurisdiction over Thermacon exists under a traditional personal jurisdiction analysis, the Court does not address the impact of a statute authorizing nationwide service of process on a personal jurisdiction analysis.

under the Texas long arm statute because the conduct "produced reasonably foreseeable harm within Texas"); *see also Hupp v. Siroflex of America, Inc.*, 848 F. Supp. 744, 746 (S.D. Tex. 1994) (tort is committed where the injury occurs).

Furthermore, the exercise of personal jurisdiction over Thermacon under these circumstances is consistent with due process. The exercise of personal jurisdiction over a defendant is consistent with the Due Process Clause of the United States Constitution if the defendant has "minimum contacts" with the forum state, *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945), and if requiring the defendant to litigate in the forum state does not offend "traditional notions of fair play and substantial justice." *Id.*; *see also Wilson v. Belin*, 20 F.3d 644, 647 (5th Cir.), *cert. denied*, 115 S. Ct. 322 (1994); *Ruston Gas Turbines, Inc. v. Donaldson Co.*, 9 F.3d 415, 418 (5th Cir. 1993). By conspiring with Insultherm, a Texas resident, in an attempt to frustrate the commercial efforts of TII, another Texas resident, Thermacon clearly has minimum contacts with Texas. Moreover, because Thermacon's actions were aimed at Texas and it knew the brunt of its actions would be felt by TII in Texas, Thermacon should reasonably have anticipated being haled into court in Texas to answer for its conduct. *See, e.g., Calder v. Jones*, 465 U.S. 783, 789-90 (1984) (California court could constitutionally exercise personal jurisdiction over Florida defendants whose intentional and allegedly tortious actions were "expressly aimed at California," thus the defendants could reasonably anticipate being sued in California); *see also Southmark Corp. v. Life Investors, Inc.*, 851 F.2d 763, 772 (5th Cir. 1988) (personal jurisdiction in tort

case requires evidence that tortfeasor expressly aimed its tortious activities at Texas).[5] Thus, this Court has personal jurisdiction over both McBride and Thermacon. Accordingly, their inclusion in the Second Action does not prevent TII's antitrust claims from being characterized as compulsory, if the claims otherwise meet the definition of compulsory counterclaims.

To determine whether a counterclaim is compulsory, the Court must consider

> (1) whether the issues of fact and law raised by the claim and counterclaim largely are the same; (2) whether *res judicata* would bar a subsequent suit on defendant's claim absent the compulsory counterclaim rule; (3) whether substantially the same evidence will support or refute plaintiff's claim as well as defendant's counterclaim; and (4) whether there is any logical relationship between the claim and the counterclaim.

---

[5] To add yet another dimension to this saga, Thermacon has sued TII, Insultherm, and McBride in the Southern District of New York, alleging, *inter alia*, unfair competition and interference with contractual relations. In its Complaint in the New York action, Thermacon acknowledges its strong desire to gain access to the market in the Gulf states region, and alleges that through Arrow Industrial Management, Inc., apparently a Texas corporation, Thermacon in fact made "significant" sales and profits in the Gulf region in 1991. Because these sales apparently occurred before the alleged conspiracy between Insultherm and Thermacon began, the Court did not consider them when concluding that personal jurisdiction exists over Thermacon. Nonetheless, the fact that Thermacon made significant sales in an area including Texas supports the Court's conclusion that Thermacon should have anticipated being haled into court in Texas.

Park Club, Inc. v. Resolution Trust Corp., 967 F.2d 1053, 1058 (5th Cir. 1992); *accord Plant v. Blazer Fin. Servs., Inc.*, 598 F.2d 1357, 1360 (5th Cir. 1979). An affirmative answer to any one of these questions establishes that the counterclaim is compulsory. *Park Club*, 967 F.2d at 1058.

Under this broad standard, the Court has no doubt that TII's antitrust claims are properly classified as compulsory counterclaims to Insultherm's infringement claim. At the center of TII's antitrust claims is the contention that the '490 Patent is invalid because Insultherm engaged in fraudulent or inequitable conduct before the PTO. In addition, TII contends that Insultherm violated the antitrust laws by bringing an infringement action against TII when in fact there was no infringement. Clearly then, Insultherm's infringement claims and TII's antitrust claims are logically related and raise common issues of law and fact – the nature of McBride's conduct before the PTO during the prosecution of the '490 patent, the validity of the '490 patent, and the existence or nonexistence of any infringement. Moreover, the evidence that TII contends will defeat Insultherm's infringement claim (McBride's conduct before the PTO and the absence of infringement) is the very evidence that will support its counterclaim. *Cf. Moore v. New York Cotton Exchange*, 270 U.S. 593, 610 (1926) (addressing former equity rule requiring the responsive pleading of any counterclaim arising out of the transaction which is the subject matter of the suit, the Court required a counterclaim to be pleaded because "[s]o close is the connection between the case sought to be stated in the bill and that set up in the counterclaim, that it only needs the failure of the former to establish a foundation for the latter."). Thus, TII's

antitrust claims fall squarely within the Fifth Circuit's definition of compulsory counterclaims.

TII, however, contends the antitrust claims are not compulsory counterclaims, relying on *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944). In *Mercoid*, Mid-Continent sued Mercoid for patent infringement. As a counterclaim, Mercoid contended Mid-Continent misused its patent by attempting to expand the scope of its patent and thus monopolize the market for unpatented parts. Mid-Continent argues that Mercoid's antitrust claim was barred under the doctrine of *res judicata* by virtue of a previous infringement suit Mid-Continent had filed against a third party for whom Mercoid provided the defense. In dismissing that argument, the Supreme Court stated:

> Mercoid's counterclaim for damages. . . . was based on § 4 of the Clayton Act. . . . Though Mercoid were barred in the present case from asserting any defense which might have been interposed in the earlier litigation, it would not follow that its counterclaim for damages would likewise be barred. That claim for damages is more than a defense; it is a separate statutory cause of action. The fact that it might have been asserted as a counterclaim in the prior suit by reason of Rule 13(b) [the rule governing permissive counterclaims] . . . does not mean that the failure to do so renders the prior judgment *res judicata* as respects it.

320 U.S. at 670-71.

While *Mercoid* has been followed by some courts, *see Agrashell, Inc. v. Hammons Prods. Co.*, 479 F.2d 269, 287 (8th Cir.), *cert. denied*, 414 U.S. 1022 (1973); *Switzer Bros v.*

Locklin, 207 F.2d 483, 486 (7th Cir. 1953), *cert. denied*, 347 U.S. 912 (1954); *Reagan v. Commonwealth Theaters of Puerto Rico, Inc.*, 300 F. Supp. 676 (D.C. Puerto Rico 1969); *Douglas v. Wisconsin Alumni Research Foundation*, 81 F. Supp. 167, 170 (D.C. Ill. 1948), the decision has been strongly criticized. *See, e.g.*, 6 Charles A. Wright, Arthur R. Miller, and Mary K. Kane, *Federal Practice & Procedure* § 1412 ("It is difficult to understand why the Court thought that the counterclaim was permissive, since defendant's allegations that plaintiff had sought to create a monopoly through its patent were logically related to plaintiff's allegations that defendant had infringed the same patent and seemed to stem from the same transaction and occurrence."). In fact, the majority of cases addressing the issue (and nearly all of the more recent cases considering the issue) have avoided *Mercoid* by limiting it strictly to its facts, or characterizing the counterclaim portion of the opinion as dictum. *See Burlington Indus., Inc. v. Milliken & Co.*, 690 F.2d 380, 389 (4th Cir. 1982), *cert. denied*, 461 U.S. 914 (1983) (in holding that antitrust counterclaims were compulsory counterclaims to original action asserting breach of a licensing agreement, the court distinguished *Mercoid* on its facts and stated that *Mercoid*'s "continuing validity is open to serious question"); *United States v. Eastport Steamship Corp.*, 255 F.2d 795, 805 (2nd Cir. 1958) ("in view of the criticism which the decision has received and the failure of the Court to discuss the principles upon which the decision rests, we think that *Mercoid* cannot be taken as precedent for other than its own limited facts"); *American Packaging Corp. v. Golden Valley Microwave Foods, Inc.*, No. 94-1839, 1995 WL 262522 at *4 (E.D. Pa. May 1, 1995) (antitrust claim based on fraudulent procurement of

patent is compulsory counterclaim to prior patent infringement action; limiting *Mercoid* to antitrust claims based on patent misuse rather than inequitable conduct); *Rohm & Haas Co. v. Brotech Corp.*, 770 F. Supp. 928, 933 (D. Dela. 1991) (antitrust, RICO, and common law fraud claims brought by alleged patent infringer bore a logical relationship to patent infringement claims and therefore were compulsory counterclaims that should have been asserted in earlier patent infringement case; limiting *Mercoid* to antitrust cases involving patent misuse); *Grumman Systems Support Corp. v. Data General Corp.*, 125 F.R.D. 160, 164 (N.D. Cal. 1988) (holding that antitrust claims against copyright owner are compulsory counterclaims in copyright infringement action; characterizing the *Mercoid* holding as "broad sweeping dicta"); *USM Corp. v. SPS Technologies, Inc.*, 102 F.R.D. 167, 170-71 (N.D. Ill. 1984) (separate action asserting invalidity of patent and seeking damages for antitrust violations could not be maintained, because the claims were compulsory counterclaims that should have been asserted in previous patent infringement action; limiting to *Mercoid* to its facts); *Lewis Mfg. Co. v. Chisholm-Ryder Co.*, 82 F.R.D. 745, 749-50 (W.D. Pa. 1979) (antitrust counterclaim based on inequitable conduct before the PTO is compulsory in patent infringement action; distinguishing *Mercoid* in that it involved counterclaims by a defendant who was not named in the previous infringement action); *Borden Co. v. Sylk*, 42 F.R.D. 429, 432 (E.D. Pa. 1967) ("There is nothing . . . [in the *Mercoid* opinion] which holds that the counterclaim under § 4 of the Clayton Act, 15 U.S.C. § 15, was permissive (and hence one not arising out of the transaction or occurrence that is the subject matter of the opposing

party's claim), rather than compulsory. The court apparently assumed that the counterclaim was a permissive one.").

This Court joins the growing number of courts questioning the counterclaim portion of the *Mercoid* decision. To the extent the *Mercoid* Court actually held (rather than assumed without deciding) that the counterclaim was permissive, this Court agrees that the decision must be strictly limited to its facts – the assertion of antitrust claims based on patent misuse by a defendant involved in but not named in the previous infringement action.[6] Thus limited, *Mercoid* does not compel this Court to characterize TII's claims as permissive rather than compulsory counterclaims. Moreover, given the ability of the United States to prevent and restrain violations of the Sherman Act, the Court can find no public policy justification for carving out a broad antitrust exception to the compulsory counterclaim rule.

---

[6] The Court disagrees with TII's characterization of its antitrust claims as based on Insultherm's misuse of the '490 patent. The patent holder in *Mercoid* misused its patent by attempting to expand the scope of the patent and thus monopolize the market for unpatented components. There was no allegation in *Mercoid* that the patent was invalid. Here, the bulk of TII's antitrust counterclaims hinge on the invalidity of the '490 patent. TII's claims are thus based on fraudulent procurement of the patent, not misuse of the patent. To the extent TII also states an antitrust claim under *Loctite Corp. v. Ultraseal, Ltd.*, 781 F.2d 861 (Fed. Cir. 1985), that is, that Insultherm instituted an infringement action knowing that TII was not infringing the '490 patent, this claim is not the type of patent misuse claim contemplated by the *Mercoid* court.

The Court also finds unpersuasive TII's argument that *Professional Real Estate Investors v. Columbia Pictures Indus., Inc.*, 113 S. Ct. 1920 (1993), *Vendo Co. v. Lektro-Vend Corp.*, 433 U.S. 623 (1977), and *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) "tacitly approved" the use of a second suit to assert antitrust claims. In *Professional Real Estate*, "sham" litigation antitrust claims were brought as counterclaims to a copyright infringement action, the very litigation claimed to be "sham." The Court does not understand the portion of the opinion cited by TII to refer to subsequent antitrust litigation, but rather to litigation much like that before the *Professional Real Estate* court, where the antitrust counterclaims are resolved after the merits of the original infringement action are determined. *See* 113 S. Ct. at 1928, n.5.

Lektro-Vend likewise offers no support to TII. While *Lektro-Vend* did involve an antitrust action based on non-competition covenants that were the subject of a state court lawsuit, the antitrust action was filed shortly after the institution of the state court action, and remained dormant until after the resolution of the state proceeding. 433 U.S. at 627-28. Given that federal courts have exclusive jurisdiction over antitrust claims, *see* 15 U.S.C. § 15, the antitrust claims could not have been considered compulsory in the state court action. Promptly bringing the antitrust claims in federal court and staying the federal proceedings until the conclusion of the state proceedings seems to be the proper way to handle the peculiar procedural issues involved in *Lektro-Vend*. *See* 6 Charles A.

Wright, Arthur R. Miller, and Mary K. Kane, *Federal Practice & Procedure* § 1418. In addition, TII points to a statement made by Justice Blackmun in his concurring opinion in *Lektro-Vend* as further support for its position. Taking issue with statements made by Justice Stevens in his dissent, Justice Blackmun stated

> there is no reason to believe that the Court's reference [in a prior case] to the use of a patent obtained by fraud to exclude a competitor contemplated only one lawsuit. The case cited in connection with that reference, *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), held only that the enforcement of a patent procured by fraud on the Patent Office could state a claim under § 2 of the Sherman Act, where the monopolistic acts alleged included use of the fraudulent patent through a course of action involving both threats of suit and prosecution of an infringement suit.

Lektro-Vend, 433 U.S. at 644 n.* (Blackmun, J., concurring). This statement is not a blessing of the use of a separate suit to assert antitrust claims, as TII contends, but rather reflects Justice Blackmun's position that an antitrust violation can be established only by a pattern of baseless lawsuits, rather than by a single lawsuit. *See* 433 U.S. at 623. Thus, *Lektro-Vend* is not inconsistent with this Court's conclusion that TII's antitrust claims are compulsory counterclaims.

Finally, TII contends that *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979) establishes that antitrust claims need not be brought as counterclaims to an infringement action. In *Handgards*, the defendant in a

patent infringement suit did bring a separate antitrust action against the patent holder, alleging bad-faith prosecution of the infringement action. 601 F.2d at 988-90. However, the issue of whether the antitrust claims were compulsory to the infringement suit was apparently never raised by the patent holder, and thus was not before the *Handgards* court. Appellate courts generally do not rule on issues not before them. *See, e.g., State v. Austin*, 409 S.E.2d 811, 817 (S.C. Ct. App. 1991) (Appellate courts, "like well-behaved children, do not speak unless spoken to and do not answer questions they are not asked.") Therefore, this Court will not read *Handgards* as authority for a proposition the *Handgards* court did not decide or apparently even consider.

As discussed above, the conduct that forms the foundation of TII's antitrust claims is the very same conduct which TII asserted as defenses in the First Action. The claims arise from the same transaction and occurrence as Insultherm's infringement claims against TII, and are logically related to those claims. Thus, TII's antitrust claims were compulsory counterclaims in the First Action. *See American Packaging Corp.*, 1995 WL 262522 at *4 (antitrust claim based on fraudulent procurement of patent is compulsory counterclaim to prior patent infringement action); *Rohm & Haas*, 770 F. Supp. at 933 (where defendant in patent infringement action brought later action asserting antitrust claims based on fraud committed upon the PTO during the prosecution of several patents, including the patents which were the subject of the infringement action, the antitrust claims were compulsory counterclaims in the infringement case); *USM Corp.*, 102 F.R.D. at 170-71 (antitrust claims based on

fraudulent procurement of a patent are compulsory counterclaims to previous infringement action); *Lewis Mfg.*, 82 F.R.D. at 750 (antitrust claims based on patent holder's fraudulent conduct before the PTO are compulsory counterclaims to previous infringement action). The compulsory counterclaim rule is intended

> to prevent multiplicity of actions and to achieve resolution in a single lawsuit of all disputes arising out of common matters. The Rule was particularly directed against one who failed to assert a counterclaim in one action and then instituted a second action in which that counterclaim became the basis of the complaint.

Southern Constr. Co. v. Pickard, 371 U.S. 57, 60 (1962). This case, therefore, presents precisely the situation the rule was designed to prevent. Accordingly, by failing to raise the claims in the First Action, TII is barred from raising its antitrust claims in the Second Action. *Crutcher v. Aetna Life Ins. Co.*, 746 F.2d 1076, 1080 (5th Cir. 1984) (failure to bring compulsory counterclaim bars later action on that claim); *Baker v. Southern Pac. Transp.*, 542 F.2d 1123, 1126 (9th Cir. 1976) (where defendant failed to assert compulsory counterclaim in previous action, the defendant waived the claim and could not maintain a separate action on it; district court therefore properly dismissed original defendant's subsequent action asserting the counterclaim); *American Packaging Corp.*, 1995 WL 262522 at *6 (granting summary judgment against antitrust claims brought in separate action that should have been asserted as compulsory counterclaims in previous infringement action); *Rohm & Haas*, 770 F. Supp. at 935 (issuing injunction requiring plaintiff to dismiss antitrust

claims pending before another federal district court because the antitrust claims should have been asserted as compulsory counterclaims in prior infringement action).[7]

III. TII'S MOTION

Recognizing the possibility that its claims might be classified as compulsory counterclaims, TII has requested leave to file its antitrust claims as counterclaims in the First Action. "When a pleader fails to set up a counterclaim through oversight, inadvertence, excusable neglect, or when justice requires, the pleader may by leave of the court set up the counterclaim by amendment." Fed. R. Civ. P. 13(f). Whether leave to plead omitted counterclaims should be granted is a matter left to the discretion

---

[7] The Court is aware that the Federal Circuit's recent opinion in *Filmtec Corp. v. Hydranautics*, ___ F.3d ___, 1995 WL 599982 (Fed. Cir. Oct. 12, 1995) seems to indicate the Federal Circuit would not treat antitrust claims arising from patent infringement litigation as compulsory counterclaims to the infringement action. However, in *U.S. Philips Corp. v. Sears Roebuck & Co.*, 55 F.3d 592, 597 (Fed. Cir. 1995), the Federal Circuit stated that "the place to challenge litigation as sham is in the asserted sham litigation." Thus, how the Federal Circuit might decide the issue presently before this Court is far from clear. Moreover, while the question of the nature of TII's antitrust claims arose in the context of patent litigation, given the purely procedural nature of the ultimate issue, the Court believes it must follow the law of the Fifth Circuit rather than the Federal Circuit. *See, e.g., Filmtec*, 1995 WL at *3 (unless a procedural matter is importantly related to an area of the Federal Circuit's exclusive jurisdiction, the Federal Circuit will generally be guided by the views of the circuit in which the trial court sits).

of the Court. *See McLemore v. Landry*, 898 F.2d 996, 1003 (5th Cir.), *cert. denied*, 498 U.S. 966 (1990).

TII's antitrust claims are based on the precise conduct of Insultherm that TII used as the basis of its defenses in the First Action; thus, there can be no argument that TII had not discovered the facts necessary to support the antitrust claims.[8] The First Action has been pending for over two years; allowing TII to now assert these counterclaims would work a great prejudice to Insultherm. While the conduct supporting TII's initial defenses and the antitrust claims is largely the same, allowing the counterclaims to proceed would require substantial new discovery to assess the relevant market and determine TII's damages, and therefore would significantly delay the ultimate resolution of this case. Accordingly, considering the prejudice to Insultherm and the totality of the circumstances, the Court in its discretion concludes that justice requires that TII be denied leave to assert the omitted antitrust counterclaims in the First Action. *See, e.g., McLemore*, 898 F.2d at 1003 (trial court did not abuse its discretion by denying defendant's motion for leave to file compulsory counterclaim made six months after the

---

[8] TII, however, contends it did not discover the conspiracy between Insultherm and Thermacon until after it filed its answer in the First Action. Assuming this to be true, TII, at the time it filed its answer, clearly had knowledge of McBride's conduct before the PTO, and thus had knowledge of the facts supporting the antitrust claims against Insultherm. Had TII raised the antitrust claims against Insultherm in the First Action as it should have done, it would have been a simple matter to include Thermacon as a defendant once Thermacon's involvement was discovered.

defendant moved for summary judgment, five months after the plaintiff moved for summary judgment, six weeks after the trial court ruled on the summary judgment motions, and almost three years after the litigation began); *Imperial Enterprises, Inc. v. Fireman's Fund Ins. Co.*, 535 F.2d 287, 293 (5th Cir. 1976) (no abuse of discretion in denying motion for leave to file compulsory counterclaim where motion was made almost one year after the defendant became aware of the facts underlying the counterclaim).

IV. CONCLUSION

To summarize, TII's antitrust claims were compulsory counterclaims in the First Action, and TII's failure to assert the claims in that action prevents TII from asserting the claims in the Second Action. Therefore, TII's claims against Insultherm, Thermacon, and McBride in the Second Action must be dismissed. In addition, TII's Motion for leave to amend its answer in the First Action is untimely, in view of the prejudice that would be suffered by Insultherm if the amendment were allowed at this late stage of the litigation.

Accordingly, Insultherm's Motion to Reconsider is hereby **GRANTED**. The Court's June 29, 1995 Orders consolidating the First Action and the Second Action and granting TII leave to file a counterclaim and add defendants are hereby **VACATED**, and TII's Motion for Leave to File Counterclaim is hereby **DENIED**. Insultherm's and McBride's Motion to Dismiss TII's Complaint is hereby **GRANTED**, and all claims asserted by TII in the Second Action are hereby **DISMISSED WITH PREJUDICE**.

IT IS SO ORDERED.

Done this 30th day of November 1995, at Galveston, Texas.

/s/ Samuel B. Kent
SAMUEL B. KENT
UNITED STATES
DISTRICT JUDGE